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Supreme Court, U.S.
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No. 96-1283

IN THE
Supreme Court of the United States
OCTOBER TERM, 1996

PAOLO GUCCI DESIGN STUDIO, LTD.,
Petitioner,

v.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.p.A. and GUCCI AMERICA, INC.,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

REPLY TO BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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April 9, 1997

43 pp

TABLE OF CONTENTS

Page

TABLE OF CONTENTS..... i

TABLE OF AUTHORITIES..... iv

STATEMENT..... 1

ARGUMENT..... 2

I. PGDS Has a Clear Property Interest in The Post-Petition Designs of Paolo Gucci..... 2

A. A Binding, Fully Executed and Unconditional Contract Between Paolo Gucci and PGDS Conferred on PGDS the Right to License Paolo Gucci's Post-Petition Designs..... 2

B. Respondent Sinatra's Contention that Paolo Gucci Could Not Enter into a License Agreement with PGDS is Circular..... 4

C. A Supplemental Order of the District Court Does Not Support the Standing Arguments Advanced by Respondent Sinatra..... 5

TABLE OF CONTENTS - Continued

Page

II. PGDS Sought a Review in the Lower Courts of the Issues Presented in the Certiorari Petition..... 5

A. Contrary to the Respondent's Position, PGDS Did Contest the Jurisdiction of the Bankruptcy Court Over Paolo Gucci's Post-Petition Designs..... 6

B. PGDS Is Not Precluded From Raising a Constitutional Issue or Seeking a Constructive Trust Before this Court..... 7

III. Effective Relief Can Still Be Afforded to PGDS..... 9

CONCLUSION..... 10

APPENDICES..... 1a

A. License Agreement Between Paolo Gucci and Paolo Gucci Design Studio, Ltd..... 1a

TABLE OF CONTENTS - Continued

Page

B. Motion Of Paolo Gucci Studio, Ltd For An Order Determining That The Designs Created By Paolo Gucci Subsequent To Commencement Of The Chapter 11 Case Are Not Property Of The Estate..... 15a

C. Excerpt From Memorandum Of Paolo Gucci Design Studio, Ltd. And Licensing By Paolo, Inc. Of Points And Authorities In Support Of Their Motion For Stay Pending Appeal Filed with the United Stated Bankruptcy Court for the Southern District of New York..... 19a

D. Excerpt From Memorandum Of Paolo Gucci Design Studio, Ltd. And Licensing By Paolo, Inc. Of Points And Authorities In Support Of Their Motion For Stay Pending Appeal Filed with the United Stated District Court for the Southern District of New York..... 23a

E. Excerpt From Memorandum Of Paolo Gucci Design Studio, Ltd. And Licensing By Paolo, Inc. Of Points And Authorities In Support Of Their Motion For Stay Pending Appeal Filed with the United Stated Court of Appeals for the Second Circuit..... 25a

TABLE OF AUTHORITIES

STATUTES

Page

28 U.S.C. § 363(m)..... 7

Fed.R.App.P. 27(a)..... 8

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REPLY TO BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

STATEMENT

On March 14, 1997 Respondent Frank G. Sinatra, the Trustee for the Chapter 11 Estate of Paolo Gucci (Sinatra), filed a brief in opposition to a Petition for a Writ of Certiorari filed by Petitioner Paolo Gucci Design Studio, Ltd. (PGDS). Shortly after receiving that brief, the Court requested the other two respondents in this proceeding, Guccio Gucci, S.p.A. and Gucci America, Inc., to file briefs

stating their opposition, if any, to the writ requested by PGDS. Guccio Gucci and Gucci America declined to do so. Consequently, this reply will address only those issues raised by Respondent Sinatra.

Sinatra's opposition is based on two grounds. First, Sinatra maintains that PGDS does not have a sufficient property interest in Paolo Gucci's post-petition designs to seek certiorari. Secondly, Sinatra claims that PGDS does not have standing to seek certiorari because it failed to raise certain issues in the lower courts. As we demonstrate below, both positions are incorrect. A binding contract between Paolo Gucci and PGDS conferred on PGDS the exclusive right to license and market the post-petition designs of Paolo Gucci. Contrary to the argument advanced by Sinatra, that contract was not subject to the approval of the bankruptcy court; nor was the effectiveness of the contract conditioned upon approval by the bankruptcy court.

With respect to standing issues, PGDS consistently objected to the bankruptcy court's exercise of any jurisdiction over the post-petition designs of Paolo Gucci or PGDS' right to license those designs. The constitutional issue which PGDS seeks to bring before this Court was also raised to the extent permitted by the lower courts.

ARGUMENT

I. PGDS Has a Clear Property Interest in The Post-Petition Designs of Paolo Gucci.

A. A Binding, Fully Executed and Unconditional Contract Between Paolo Gucci and PGDS Conferred on PGDS the

Right to License Paolo Gucci's Post-Petition Designs.

In his opposition brief, Respondent Sinatra states that the contractual right of PGDS to license the post-petition designs of Paolo Gucci was subject to the approval of the bankruptcy court and that approval was never obtained. Sinatra's position is plainly incorrect.

We have re-printed in Appendix A the relevant portions of the 18-page agreement between Paolo Gucci and PGDS. An examination of the contract indicates that it was designed to become effective upon execution by the two parties and was in no way subject to bankruptcy court approval. The agreement states that:

> PAOLO GUCCI hereby grants to Licensor, [PGDS] upon the terms and conditions of this Agreement, the exclusive rights to use the Licensed Name [the marks associated with Paolo Gucci] throughout the world on and in connection with the manufacture, promotion, merchandising, distribution and sale of Products which have been designed by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD.[1]

PGDS' exclusive right to use and license Paolo Gucci's post-petition designs is unqualified by any term of the agreement; it is surely not conditioned upon bankruptcy court approval. None of the recitals in Paragraph 1 of the agreement refers to the bankruptcy court;[2] none of the

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[1] Appendix A, ¶ 4.1 at 6a.
[2] *Id.* at 1a-2a.

definitions in paragraph 2[3] refers to the bankruptcy court and the obligations of Paolo Gucci as stated in paragraph 3[4] and of PGDS in paragraph 4[5] in no way refer to the bankruptcy court.

The only reference to the bankruptcy estate in the entire agreement occurs in paragraph 6. In paragraph 6.1, PGDS agreed to pay Paolo Gucci, personally, 4% of the gross sales of the "Licensed Products."[6] However, *in the event* the bankruptcy court approves a "Global Settlement," then the bankruptcy estate would be entitled to a 3% royalty and Paolo Gucci would be entitled to a 1% royalty.[7] It is clear from the context of the agreement that if the bankruptcy court did not approve the Global Settlement, then Paolo Gucci would have been entitled to the entire royalty discussed in paragraph 6. As stated above, the only parties to this 18-page agreement were PGDS and Paolo Gucci (not the Trustee of Paolo Gucci's bankruptcy estate). It is clear that the agreement was intended to stand as a binding commitment of both parties regardless of whether the bankruptcy court approved any Global Settlement.

B. Respondent Sinatra's Contention that Paolo Gucci Could Not Enter into a License Agreement with PGDS is Circular

Sinatra further contends that even if PGDS did acquire property rights as a result of its contract with Paolo Gucci, Paolo Gucci did not have the right to execute that

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[3] *Id.* at 2a-4a.
[4] *Id.* at 4a-5a.
[5] *Id.* at 6a-8a.
[6] *Id.* at 14a.
[7] *Id.*

contract without the approval of the bankruptcy court. However, this argument is circular. PGDS has consistently maintained that the bankruptcy court did not have any jurisdiction over the post-petition designs of Paolo Gucci. Sinatra disagrees. However, the dispute as to whether the bankruptcy court had jurisdiction over all of Paolo Gucci's creative activities, including those conducted subsequent to the date of the bankruptcy petition, is the ultimate issue in this litigation. If, as PGDS maintains, the bankruptcy court had no jurisdiction over Paolo Gucci's post-petition designs, then Paolo Gucci had every right to enter into a master license agreement with PGDS. Surely PGDS has standing to litigate that issue.

C. A Supplemental Order of the District Court Does Not Support the Standing Arguments Advanced by Respondent Sinatra.

Respondent Sinatra also maintains that an order entered by Judge William C. Conner of the District Court affects the arguments made by PGDS. We are familiar with that order but fail to understand how it supports Sinatra's position. Judge Conner's Supplemental Order affirms that Paolo Gucci could pursue the very course of conduct he undertook with PGDS: enter into a master license agreement with PGDS under which PGDS would in turn enter into sublicense agreements to manufacture and sell Paolo Gucci's creative products.[8]

II. PGDS Sought a Review in the Lower Courts of the Issues Presented in the Certiorari Petition

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[8] Brief in Opposition, at A-2, ¶ 2.

A. Contrary to the Respondent's Position, PGDS Did Contest the Jurisdiction of the Bankruptcy Court Over Paolo Gucci's Post-Petition Designs

According to Respondent Sinatra, PGDS submitted to the core-jurisdiction of the bankruptcy court rather than raising a *Marathon*-type objection. However, the record demonstrates that the contrary is true.

Clearly the bankruptcy court had core jurisdiction over the transferable property which Paolo Gucci possessed as of the date on which he filed a bankruptcy petition. It is also clear that the bankruptcy court purported to sell certain property at auctions held in May 1996 and August 1996. However, what was unclear on the dates of the auctions was the particular property that the bankruptcy court was purporting to sell.

PGDS attempted to clarify the issue on May 3, 1996 when it filed a motion with the bankruptcy court which pointed out that the bankruptcy court did not have jurisdiction to sell post-petition property. The Motion stated that "the designs that the Debtor created after the Petition Date are not property of the estate and therefore cannot be transferred by the Trustee."[9] PGDS could not have raised a constitutional issue at that point or have asked the District Court to remove the reference because at that time, the bankruptcy court was not purporting to exercise jurisdiction over Paolo Gucci's post-petition designs.

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[9] Appendix B, ¶ 8 at 17a.

It was not until October 15, 1996, when the bankruptcy court *simultaneously* denied the PGDS motion and issued an order selling post-petition property that a *Marathon*-type argument could have been properly raised.

In fact, on October 15, 1996 PGDS did so. It sought an immediate stay of the bankruptcy court order on the grounds that it was *ultra vires* since the bankruptcy court had no jurisdiction over post-petition designs.[10] Those arguments were preserved and repeated in briefs which PGDS subsequently filed with the District Court[11] and the Court of Appeals.[12]

B. PGDS Is Not Precluded From Raising a Constitutional Issue or Seeking a Constructive Trust Before this Court.

Sinatra also claims that PGDS failed to raise in the lower courts the constitutional issue for which it now seeks certiorari. Sinatra further contends that PGDS failed to seek a constructive trust before the Court of Appeals. According to Sinatra, PGDS is now precluded from doing so.

Sinatra's position is incorrect. PGDS maintains that Section 363(m) of the Bankruptcy Code is contrary to the Constitution to the extent that it prevents PGDS from appealing the seizure and sale of its property to Article III courts. PGDS could only have raised that issue at the point at which it was threatened with the deprivation of those constitutional rights. At the point at which that threat was

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[10] Appendix C, at 19a.
[11] Appendix D, at 23a.
[12] Appendix E, at 25a.

presented, PGDS did in fact raise the very constitutional issue it is seeking to bring before this court.

The record of the proceedings before the lower courts indicates that a stay of the bankruptcy court order was granted on two occasions – by the District Court on October 16, 1996 and by a single judge of the Court of Appeals on November 22, 1996. Since the bankruptcy court order was stayed on both occasions pending review by an Article III court, the constitutional issue could not have been raised at that time. PGDS did, however, attempt to raise the constitutional issue before the Court of Appeals later in the month of December, 1996 when it became ripe for it to do so.

The single judge of the Court of Appeals who issued the stay directed the parties to seek any further stay from a three-judge panel in a hearing scheduled for December 3, 1996. In the meantime, the defendants had filed a motion to dismiss the appeal on the grounds that it was moot. Under Fed. R. App. P. 27(a), PGDS' response to the motion to dismiss the appeal was due on December 6, 1996. In that response, PGDS would have raised the constitutional issue.

However, on December 3, 1996, a panel of the Court of Appeals extended the stay of the single judge and directed the parties to address the issues raised by the motion to dismiss in a brief on the merits of the appeal. That brief was to be filed on December 10, 1996 and could have addressed the constitutional issue. Unfortunately, without waiting for these briefs, the Court of Appeals issued another order *sua sponte* on December 4, 1996 granting the motion to dismiss in part. Under the December 4, 1996 order of the Court of Appeals, the only issue which PGDS was permitted to argue

on the merits of its appeal was whether the Guccio Gucci companies were good faith purchasers.[13] PGDS was therefore precluded from presenting the constitutional issue to the Court of Appeals. Although counsel for PGDS nonetheless attempted to present the constitutional issue at oral argument, the presiding judge ruled the argument out of order because the issues on appeal had been limited only to the good faith purchaser issue.

The constructive trust issue is in the same posture. PGDS would have presented the argument when it was ripe to do so – *viz.*, in response to the defendant's motion to dismiss the PGDS appeal as moot. However the Court of Appeals prevented PGDS from submitting a brief on that issue, and limited it to arguing only the status of Guccio Gucci as a good faith purchaser.

III. Effective Relief Can Still Be Afforded to PGDS.

Respondent Sinatra also argues that all of the funds of the bankruptcy estate have been disbursed and therefore PGDS cannot be afforded any measure of relief. That position too is incorrect.

According to the bankruptcy Trustee's latest accounting, the Guccio Gucci companies still owe the estate approximately $1 million. Moreover, even though disbursements have recently been made from the estate, these funds have been largely transmitted to the lawyers for Respondent Sinatra. Those funds could certainly be recovered.

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[13] *See* Order of the Court of Appeals for the Second Circuit Dated December 4, 1996, Petition Appendix, at 2a.

Furthermore, contrary to Sinatra's argument, there are no eggs that would need to be unscrambled in order to provide effective relief to PGDS. Guccio Gucci has not yet taken possession of, nor destroyed Paolo Gucci's post-petition designs. If PGDS succeeds on the ultimate merits of its appeal, this Court and the lower courts will be able to afford it significant and substantial relief.

CONCLUSION

For the reasons set forth above, Petitioner Paolo Gucci Design Studio, Ltd. respectfully requests the Court to grant its Petition for a Writ of Certiorari.

Respectfully submitted,

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April 9, 1997

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APPENDICES

APPENDIX A

AGREEMENT[1]

This AGREEMENT made as of the 3rd day of October, 1995, by and between Paolo Gucci, resident at Normans, East St., Rusper, W. Sussex, RH12 4RD, England, (hereinafter referred to as "Designer"), and Paolo Gucci Design Studio, Ltd., having offices at 1156 East Putnam Avenue, Greenwich, Connecticut 06878 U.S.A. (hereinafter referred to as "Licensee").

1 RECITALS

1.1 PAOLO GUCCI is a fashion designer known professionally throughout the world as a designer of merchandise of high quality as to design, style, coordination, use of materials, workmanship and packaging. PAOLO GUCCI is, and throughout the term of this Agreement shall be retained as a designer and consultant by Licensor.

1.2 Licensor has the right to license others throughout the world to use the designs of PAOLO GUCCI and the Licensed Name with the approval of PAOLO GUCCI, which approval has already been given, in the manner set forth below on and in connection

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[1] This document appears in the record below in the Joint Appendix in the United States Court of Appeals for the Second Circuit, "October 3, 1995 License Agreement between Paolo Gucci and Paolo Gucci Design Studio, Ltd." *In Re: Paolo Gucci,* Nos. 96-5138 (L) and 96-5142 (CON), at A370.

with the manufacture, distribution and sale of Products, pursuant to a Final Judgment dated July 13, 1988, revised _____, and attached hereto as Exhibit A (hereinafter the "Final Judgment").

1.3 Licensor desires to obtain the designs of PAOLO GUCCI and the right to use the Licensed Name on and in connection with the manufacture, distribution and for resale of Licensed Products by Licensor throughout the world, upon the terms and conditions hereinafter provided.

2 DEFINITIONS

2.1 *"Licensed Name"* shall mean the personal name "PAOLO GUCCI" and the initials "PG" in logo form as hereinafter approved in writing by PAOLO GUCCI and as set forth in the Final Judgment attached hereto and any variation on the foregoing to the extent Licensor had any right or interest therein. The Licensed Name shall be used only in connection with the "PAOLO" trademark of PAOLO GUCCI or such other trademark in the phrase "Paolo [or any other trademark] followed by "Designed by Paolo Gucci".

2.2 *"Products"* shall mean and include all consumer categories with the exception of those product categories which could damage the reputation of PAOLO GUCCI, for example pornographic products or products

of war, or pharmaceutical products or any other products of a dangerous nature unless approved by Paolo Gucci.

2.3 *"Licensed Products"* shall mean Products utilizing designs of Paolo Gucci and sold by Licensor utilizing or incorporating the Licensed Name under this Agreement.

2.4 *"Territory"* shall mean worldwide.

2.5 *"Contract Year"* shall mean a twelve (12) month period beginning from the date of the contract or any other mutually agreed date and ending twelve (12) calendar months thereafter.

2.6 *"Gross Sales"* shall mean all sales, including wholesales, of Licensed Products by Licensee, or to the extent not sold by Licensee, by Related Parties to third parties as defined below, without reduction for returns, allowances and discounts or uncollectible accounts, but excluding all separately stated taxes, import and export duties and fees, shipping, packing and handling charges.

2.7 *"Net Sales"* shall mean Gross Sales less returns accepted for credit and standard trade discounts and allowances allowed by Licensee and Related Parties.

2.8 *"Guaranteed Minimum Royalties"* shall mean the minimum royalties provided in Section 6 below.

2.9 *"Related Parties"* shall mean any parent of Licensee which has effective control over Licensee, or any subsidiary of Licensee which Licensee effectively controls, or any other company in which Licensee had effective control.

2.10 *"Licensed Name Judgment"* means the Final Judgment as it may be amended, supplemented or otherwise modified (upon appeal, by settlement, by arbitration and/or other proceeding) in New York State or any other jurisdiction, domestic, foreign or otherwise).

3 DESIGNS

3.1 Paolo Gucci or the design staff of Paolo Gucci Design Studio Ltd shall provide designs which shall be suitable for production by Licensee.

3.2 Paolo Gucci or the design staff of Paolo Gucci Design Studio Ltd shall submit or approve designs during each contract year to Licensor for production by Licensees.

3.3 Paolo Gucci shall consult with Licensor from time to time regarding all matters pertaining to the subject of this Agreement and shall give such publicity assistance as may be reasonably requested consistent with other obligations. Licensor agrees to require PAOLO GUCCI to appear at least twice

during each Contract Year for publicity purposes.

3.3.1 For any scheduled appearance by PAOLO GUCCI, or scheduled travel requested for design consultations required by Licensor, Licensor shall pay and make all first class travel arrangements and first class accommodations and reasonable living expenses for PAOLO GUCCI and one GUEST.

3.3.2 Licensor shall notify Paolo Gucci at least three (3) months in advance of the time, date and place of any public appearance to be scheduled.

3.4 The artistic and creative designs and ornamental appearances of, and the copyrights, industrial designs and design patents on, the Licensed Products shall be the sole property of Paolo Gucci, and Licensor agrees to execute such documents as may be required to effectuate this provision. Paolo Gucci hereby grants a Master License to Licensor during the term of this Agreement to use the properties referred to in this paragraph on or in connection with Licensed Products.

4 LICENSE

4.1 PAOLO GUCCI hereby grants to Licensor, upon the terms and conditions of this Agreement, the exclusive rights to use the Licensed Name throughout the world on and in connection with the manufacture, promotion, merchandising, distribution and sale of Products which have been designed by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD.

4.2 Licensor may use the Licensed Name only on or in connection with the manufacture, promotion, merchandising, distribution and sale of Products worldwide which have been designed by or which incorporate designs approved by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., in accordance with this Agreement. Licensor shall not use the Licensed Name or manufacture or sell Products using or incorporating the Licensed Name except as expressly provided in this Agreement; and in the United States of America and its Territories only, the Licensed Name Judgment; however the rest of the world will not be governed by the said License Name Judgment ruling of the United States of America and its Territories, but will be governed by the rulings of such countries that PAOLO GUCCI trade marks have been applied for and have been approved.

4.3 The Licensed Name shall always be used in the precise manner set forth in the Licensed Name Judgment, where the Licensed Name Judgment applies. Licensor's signature to this Agreement shall constitute Licensor agreement to follow, be bound by and adhere to the terms of the Final Judgment as set forth in Paragraph 14 thereof. In the event of any amendment, supplement or other modification (upon appeal, by settlement, by arbitration and/or other legal or other proceeding [(in New York or any other jurisdiction, domestic or foreign] or otherwise) to or of the Final Judgment, where applicable. PAOLO GUCCI shall give Licensor prompt, written notice thereof in reasonable detail, and notwithstanding anything contained herein to the contrary, Licensor shall not be deemed by PAOLO GUCCI to be acting in violation of any such amendment, supplement, or other modification except with respect to conduct occurring at least fifteen (15) business days after Licensor has received such notice, with exception to all products, materials, designs, promotions, advertising and all other aspects of existing goods for resale or in works, production or inventory.

4.4 Licensor, during the term of this Agreement, shall have the right to utilize the Licensed Name in the phrase "Paolo [or other approved TRADEMARK]" followed by "Designed by Paolo Gucci" on stationery, order forms and invoices and in the advertising, promotion and

marketing of Licensed Products, together with the disclaimer as required under the Licensed Name Judgment where applicable. All such uses of the Licensed Name shall be in good taste as befitting the name, image and reputation of PAOLO GUCCI as a high quality world renowned designer, shall conform to the terms set forth in the Licensed Name Judgment where applicable and shall be subject to the prior, written approval of PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., which approval shall not be unreasonably withheld.

4.5 Licensor shall have the right to produce or have produced by Licensee, Licensed Products anywhere in the world with the exception of those product categories defined in paragraph 2.2 above.

4.6 PAOLO GUCCI reserves all rights to the Licensed Name except as expressly granted herein to Licensor. Nothing contained herein shall be deemed or construed to prohibit PAOLO GUCCI from using or granting the right to use the Licensed Name for any purpose other than those specified in this Agreement.

4.7 Nothing contained herein shall be deemed or construed to prohibit the Licensor from selling products which are not Licensed Products and which do not use the Licensed Name.

5 PRODUCTS CONTROL

5.1 Any license granted by the Licensor shall require that the Licensee shall submit designs, samples or specifications of the materials to be used to the Licensor for approval by PAOLO GUCCI or the design staff of Paolo Gucci Design Studio, Ltd. so as to meet the established design concepts, philosophy and quality standards as directed and approved by Paolo Gucci.

5.2 Licensor shall submit to PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., for approval, samples or specifications of all labels, tags, packaging and other materials intended to be used in connection with Licensed Products or using the Licensed Name, before the same may be used.

5.3 All products bearing the Licensed Name manufactured, sold, distributed or promoted by the Licensee shall conform in all material respects to the samples or specifications approved by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD.

5.4 Licensor shall not use any designs, patterns, stylings or samples furnished by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. for the

Licensor for use in connection with Licensed Products, or approved for such use by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., except as provided in this Agreement, it being the understanding of the parties that the Licensor may use the same solely in connection with Licensed Products.

5.5 PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., shall have the right, with reasonable notice but during normal business hours, to inspect the process of manufacturing the Licensed Products at whatever place or places the same may be conducted and to inspect any premises used by the Licensee in the selling, distribution or promotion of any Products bearing the Licensed Name. To the extent such place or places are not owned or controlled by the Licensee, Licensee shall use reasonable effort to permit PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. to make such inspections.

5.6 Licensor will use and display the Licensed Name only in such forms and manners as are approved by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. All Licensed Products shall bear the Licensed Name in the phrase "Paolo [or other approved TRADEMARK]" followed by "Designed by Paolo Gucci".

5.6.1 In the event Licensor or Licensee uses contractors to manufacture Licensed Products, all labels and tags to be used on Licensed Products will be supplied to such contractor by Licensor or Licensee and Licensor or Licensee shall not permit any contractor to obtain its own labels and/or tags including those supplied to contractors and Licensor or Licensee shall diligently police the use of all such labels and tags in an effort to prevent contractor from selling Licensed Products to any person or entity other than Licensor or Licensee. Licensor or Licensee shall not supply contractors with more labels or tags than they reasonably require and shall periodically retrieve all excess labels and tags. When requested by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., Licensor shall show PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. the procedures used by Licensor or Licensee for controlling the use of labels and tags.

5.7 Licensor shall submit to PAOLO GUCCI or the design staff PAOLO GUCCI DESIGN STUDIO, LTD. before publication, all

advertising and promotional material for approval.

5.8 Except as otherwise expressly provided herein, whenever, under the terms of this Agreement, the approval, consent or permission of PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., shall be required, such approval, consent or permission, shall not be unreasonably withheld or delayed and shall be deemed to have been granted unless within fifteen (15) business days after receipt of written request therefor by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. notifies Licensor in writing of its disapproval. If PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. shall deny approval, it shall state in writing the reasons therefore. After any sample, copy or art work has been approved by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., Licensor shall not vary or depart therefrom in any material respect without the further approval of PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD.,

5.9 Licensor agrees that all articles will be manufactured, labeled, sold, distributed, promoted and advertised in accordance with

all applicable Federal, State and local, and if appropriate, Foreign laws and regulations.

5.10 During the term of this Agreement and any renewal hereof, Licensor agrees that it will not deliver designs, styles, patterns or samples of any type to any other person or entity, including itself, for use in the sale of Products throughout the world except those designs, stylings, patterns or samples which have not been accepted by Licensor.

5.11 Licensor shall conduct all media interviews with due regard to the high quality of products designed by and reputation of PAOLO GUCCI.

5.12 Licensor shall exercise extreme caution to identify and promote Licensed Products as being designed by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. using the phrase "Paolo [or other approved TRADEMARK]" followed by "Designed by Paolo Gucci" in the manner set forth in the Licensed Named Judgment where applicable and not to relate or associate such products to any other persons or entities that may use the surname GUCCI.

5.13 Any design bearing the stamp and signature of Paolo Gucci or the director of the design staff of Paolo Gucci Design Studio, Ltd. shall be considered an approved and a valid design as long as this contract is in force.

6. COMPENSATION

6.1 In consideration of the rights granted and the services to be performed by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. hereunder, Licensor shall make payments as specified below:

Licensor shall pay to Paolo Gucci during each Contract Year a royalty of four (4%) percent of gross sales of Licensed Products during such Contract Year for the first seven (7) years of this contract, subject to the Guaranteed Minimum Royalty as specified below, royalties shall be paid on a quarterly basis within thirty (30) days of the close of each calendar quarter.

The parties additionally agree that in conjunction with the said Licensor's licensing of the "Designed by Paolo Gucci" trademark that maximum of three (3%) percent of the above licensing royalties are to be paid to the Trustee of the Paolo Gucci bankruptcy estate and applied to the minimum royalty payments referred to below and that the balance, if any, of the total four (4%) percent royalties are to be paid to Paolo Gucci individually, the Licensor shall be the recipient of any additional sums associated therewith.

APPENDIX B

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Substantively Consolidated
Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al.,
Debtors.

May 3, 1996

MOTION OF PAOLO GUCCI STUDIO, LTD FOR AN ORDER DETERMINING THAT THE DESIGNS CREATED BY PAOLO GUCCI SUBSEQUENT TO COMMENCEMENT OF THE CHAPTER 11 CASE ARE NOT PROPERTY OF THE ESTATE

TO THE HONORABLE JEFFRY H. GALLET,
UNITED STATES BANKRUPTCY JUDGE:

Paolo Gucci Design Studio, Ltd. ("PGD") by its counsel, Pryor, Cashman, Sherman & Flynn respectfully submits this motion (the "Motion") for the entry of an order

determining that the designs created by Paolo Gucci, the debtor (the "Debtor") subsequent to the commencement of the Chapter 11 case are not property of the estate pursuant to 11 U.S.C. §541. In support of this Motion, PGD represents and alleges as follows:

1. On or about February 8, 1994 (the "Petition Date"), Paolo Gucci, individually, commenced this case by filing a voluntary petition under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York.

2. Pursuant to 11 U.S.C. §1104, Frank G. Sinatra (the "Trustee") was appointed as the Chapter 11 Trustee by the United States Trustee and such appointment was approved by this Court.

3. The United States Trustee appointed a Creditors' Committee in this case pursuant to 11 U.S.C. §1102.

4. Subsequent to the Petition Date, the Debtor entered into a license agreement with PGD with reference to, among other things, various designs created by the Debtor after the Petition Date.

5. As set forth in the Affidavit of Enzo Stancato attached hereto as Exhibit "1", subsequent to the Petition Date the Debtor created a number of artistic designs of various categories.

6. The Trustee has filed a motion which is scheduled to be heard on May 6, 1996 to approve a global settlement which includes PGD funding an amount of $5,000,000 payable over seven (7) years.

7. The Creditors' Committee has filed a motion seeking approval of an offer to acquire Purchased Assets (as defined in that motion) by Guccio Gucci S.p.A. and Gucci America, Inc. (collectively, "GG"). Pursuant to the GG

offer, it appears that GG is requesting that this Court determine that those designs created by the Debtor after the Petition Date are property of the estate and may be conveyed by the Trustee.

8. Pursuant to 11 U.S.C. §541(a)(6), property of the estate does not include "earnings from services performed by an individual debtor after the commencement of the case." The Debtor, during his lifetime created designs of various categories, which he licensed to other entities. This was substantially his only source of income. Therefore, the designs that the Debtor created after the Petition Date are not property of the estate and therefore cannot be transferred by the Trustee.

9. Notice of this Motion has been provided to the Trustee, the Creditors' Committee, GG, Orologi, Trackwise, Jennifer Gucci and the United States Trustee.

10. No prior motion seeking the relief requested herein has been made to this or any other Court.

WHEREFORE, PGD respectfully requests the entry of an order determining that designs created by the Debtor subsequent to the Petition Date are not property of the estate pursuant to 11 U.S.C. §541 and such other and further relief as may seem just and proper.

Dated: New York, New York
May 3, 1996

Respectfully Submitted,

PRYOR, CASHMAN,
SHERMAN & FLYNN
Attorneys for Paolo Gucci
Designs Studio, Ltd.

By: /s/
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APPENDIX C

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Substantively Consolidated
Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al.,
Debtors.

October 15, 1996

EXCERPT FROM MEMORANDUM OF PAOLO GUCCI DESIGN STUDIO, LTD. AND LICENSING BY PAOLO, INC. OF POINTS AND AUTHORITIES IN SUPPORT OF THEIR MOTION FOR STAY PENDING APPEAL

II. PGDS and LBP Have Demonstrated A Likelihood of Success on the Merits.

Under applicable principles of law, different rules apply to the designs of Paolo Gucci depending on the date on which he created them.

A. The Post-Petition Designs of Paolo Gucci Are Outside the Bankruptcy Estate; The Bankruptcy Court Does Not Have Subject Matter Jurisdiction Over PGDS' Right to Use and License These Designs

Section 541(a)(6) of the Bankruptcy Code,[15] permits a person to continue to earn a living after he files a bankruptcy petition. It does so by first defining the bankruptcy estate as "all legal or equitable interests of the debtor in property *at the commencement* of the case."[16] The Code then specifically excludes from the estate "earnings from services performed by an individual debtor after the commencement of the case."[17] The effect of section 541(a) is explained in *4 Collier on Bankruptcy* as follows:

> As previously stated, under section 541(a) the estate is normally comprised only of property interests belonging to the debtor at the time the petition is filed. In general, property not then owned but subsequently acquired by the debtor does not become property of the estate, but becomes the debtor's, clear of all claims that are discharged by the bankruptcy proceedings.[18]

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15 11 U.S.C. § 541(a)(6).

16 11 U.S.C. § 541(a)(1) (emphasis added).

17 11 U.S.C. § 541(a)(6).

18 L. King, 4 *Collier on Bankruptcy* ¶ 541.05 at 541-25 (citations omitted).

Paolo Gucci earned a living by creating and licensing designs for consumer products. His designs were the core of his business. Those designs, intellectual property created by Paolo Gucci *after* filing a bankruptcy petition are clearly his property, free and clear of the bankrupt estate. If this were not so, then a designer such as Paolo Gucci could never again earn a living.

This self-evident rule was applied in this manner in *Patrick A. Casey, P.A. v. Hochman,*[19] where the Tenth Circuit held that a patent obtained by a debtor after filing a Chapter 11 petition was not property of the bankruptcy estate and that the debtor was entitled to it and to any revenues he could derive from it.[20] This proposition has always been the law. In fact, in the *Casey* case, the Tenth Circuit points to the holding of the United States Supreme Court that dates from 1913, and is still good law:

> We think that the purpose of the law was to fix the line of cleavage with reference to the condition of the bankrupt estate as of the time at which the petition was filed and that the property which vests in the trustee at the time of adjudication is that which the bankrupt owned at the time of the filing of the petition.[21]

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19 963 F.2d 1347 (10th Cir. 1992).

20 *Id.* at 1351.

21 *Everet v. Judson,* 228 U.S. 474, 479, 33 S.Ct. 568, 569, 57 L.Ed. 927 (1913).

There is no basis whatsoever for considering the petition designs which Paolo Gucci created, designed, selected or supervised after the commencement of the bankruptcy proceeding to be anything other than his personal property free of the bankruptcy estate.

APPENDIX D

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

Substantively Consolidated
Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al,
Debtors.

October 15, 1996

EXCERPT FROM MEMORANDUM OF PAOLO GUCCI DESIGN STUDIO, LTD. AND LICENSING BY PAOLO, INC. OF POINTS AND AUTHORITIES IN SUPPORT OF THEIR EMERGENCY MOTION FOR STAY PENDING APPEAL

Paolo Gucci Design Studios, Ltd. ("PGDS") and Licensing By Paolo, Inc. ("LBP") have moved this Court pursuant to Fed. R. Civ. P. 62 for a stay of an order entered by the Bankruptcy Court on October 15, 1996 pending their appeal of that order.[1] The Bankruptcy Court Order directs

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[1] A copy of the October 15, 1996 Order of the Bankruptcy Court (Bankruptcy Court Order) is attached to this Memorandum as Exhibit A.

both companies to deliver their property to the Trustee for delivery to a competitor Guccio Gucci, S.p.A. and Gucci America, Inc. (collectively referred to as "Gucci"). The Bankruptcy Court Order also compels PGDS and LBP to terminate completely all of their business activities.

As we demonstrate below, the Order which the Bankruptcy Judge entered is plainly erroneous. This proceeding involves a Chapter 11 bankruptcy petition which Paolo Gucci filed on February 8, 1994. From approximately 1987 until his death on October 1, 1995, Paolo Gucci was a competitor of the Gucci group. The property which PGDS possesses and which the Bankruptcy Order directs it to deliver to Gucci are designs executed by Paolo Gucci *subsequent* to the date on which he filed a bankruptcy petition. The Bankruptcy Court has no jurisdiction over this property and its order approving the sale of this property to Gucci and directing PGDS to transfer it to Gucci is *ultra vires*. With respect to the pre-petition designs of Paolo Gucci which Paolo Gucci licensed to LBP the Bankruptcy Code[2] specifically provides that license of intellectual property cannot be rejected in a bankruptcy proceeding without the agreement of the licensee. Despite LBP's vigorous objection to the Trustee's rejection of these license agreements, the Bankruptcy judge nevertheless approved the Trustee's rejection of them. The Bankruptcy Order is plainly erroneous and will, in all likelihood, be reversed on appeal.

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[2] 11 U.S.C. § 365(n).

APPENDIX E

UNITED STATES COURT OF APPEAL FOR THE SECOND CIRCUIT

Substantively Consolidated
Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al.,
Debtors.

LICENSING BY PAOLO, INC. AND PAOLO GUCCI DESIGN STUDIO, LTD.,
Appellants

-against-

FRANK G. SINATRA, AS TRUSTEE OF THE SUBSTANTIVELY CONSOLIDATED ESTATES OF PAOLO GUCCI, *ET AL.*, GUCCIO GUCCI, S.P.A. AND GUCCI AMERICA, INC.,
Appellees

November 22, 1996

EXCERPT FROM MEMORANDUM OF PAOLO GUCCI DESIGN STUDIO, LTD. AND LICENSING BY PAOLO, INC. OF POINTS AND AUTHORITIES IN SUPPORT OF THEIR EMERGENCY MOTION FOR STAY PENDING APPEAL

Paolo Gucci Design Studios, Ltd. ("PGDS") and Licensing By Paolo, Inc. ("LBP") have moved this Court pursuant to Fed. R. App. P. 8 for a stay of an Order entered by Judge Thomas P. Griesa of the District Court for the Southern District of New York pending an appeal of that Decision to this Court. The District Court affirmed an Order entered by the Bankruptcy Court on October 15, 1996.[1] The Bankruptcy Court Order directs both PGDS and LBP to deliver their property to the Trustee for delivery to a competitor Guccio Gucci, S.p.A. and Gucci America, Inc. (collectively referred to as "Gucci"). The Bankruptcy Court Order also compels PGDS and LBP to terminate completely all of their business activities.

As we demonstrate below, the Order which the Bankruptcy Judge entered is plainly erroneous. This proceeding involves a Chapter 11 bankruptcy petition which Paolo Gucci filed on February 8, 1994. From approximately 1987 until his death on October 12, 1995, Paolo Gucci was a competitor of the Gucci group. The property which PGDS possesses and which the Bankruptcy Order directs it to deliver to Gucci are designs executed by Paolo Gucci *subsequent* to the date on which he filed a bankruptcy petition. The Bankruptcy Court has no jurisdiction over this property and its order approving the sale of this property to

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[1] A copy of the October 15, 1996 Order of the Bankruptcy Court (Bankruptcy Court Order) is attached to this Memorandum as Exhibit A.

Gucci and directing PGDS to transfer it to Gucci is *ultra vires*. With respect to the pre-petition designs of Paolo Gucci which Paolo Gucci licensed to LBP the Bankruptcy Code[2] specifically provides that license of intellectual property cannot be rejected in a bankruptcy proceeding without the agreement of the licensee. Despite LBP's vigorous objection to the Trustee's rejection of these license agreements, the Bankruptcy judge nevertheless approved the Trustee's rejection of them. The Bankruptcy Order is plainly erroneous and will, in all likelihood, be reversed on appeal.

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[2] 11 U.S.C. § 365(n).